

MINUTES
LEGISLATIVE FINANCE COMMITTEE
APRIL 28TH, and 29TH, 2005

Representative Luciano “Lucky” Varela, chairman, called the Legislative Finance Committee (LFC) meeting to order on Thursday, April 28, 2005, at 10:15 a.m., State Capitol, Room 307, Santa Fe, New Mexico.

The following LFC members were present on April 28th:

Representative Luciano “Lucky” Varela, chairman, Representatives Henry “Kiki” Saavedra, Jeannette Wallace, Edward Sandoval for Donald Whitaker, Sandra Townsend, Nick Salazar, Brian Moore and Rhonda King. Senators Ben D. Altamirano for Joseph Fidel, John Arthur Smith, Phil Griego, Sue Wilson Beffort, Pete Campos, Joseph Carraro, Carroll Leavell for Leonard Lee Rawson and Shannon Robinson for Timothy Jennings.

Guest legislators included Representative Thomas Taylor.

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Guest legislators included Senator Shannon Robinson.

Chairman Varela welcomed the committee and thanked the workers of both the House Appropriation and Finance Committee and the Senate Finance Committee during the legislative session and the LFC staff for their hard work during the legislative session and the interim. The members of the LFC were all given opportunity to make opening remarks.

Senator Griego brought to the committee’s attention to a copy of an e-mail he received from an anonymous person through the mail. The e-mail from Adjutant Chief Faron Segotta, New Mexico State Police, Department of Public Safety, to all state police commanders instructed them to communicate the following to all commissioned personnel: The State Police Division will receive a 5 percent increase effective in July. The governor proposed a 10 percent salary increase and fought tirelessly for the increase. As a result, at the governor’s insistence, the State Police would receive an additional 1 percent to 2 percent more. He instructed commanders to emphasize to the troops that the governor is doing everything in his control to help the department, however, the Legislature did not present a budget for his signature that allowed for more than a 5 percent raise and the Legislature, the officers’ representatives and senators, did not support the 10 percent salary increase initially proposed. The e-mail carbon copied the highest ranks within the State Police Division including Chief Carlos Maldonado.

Senator Griego said the communication was false because he introduced a pay package for the state police with a 15 percent increase and also brought back the step increases they wanted. Every member of the Senate Finance Committee on the Senate side signed the pay package. During the interim, LFC supported the package as well. The e-mail communication is disparaging to each of the legislators who support their state police officers.

Representative Saavedra expressed concerns about the e-mail as well as the public defenders, teachers and union possibilities and issues. Several members said they had either already met with state police officers in their districts or have been asked to meet with them in the near future.

POST-SESSION FINANCIAL REPORT

David Hadwiger, analyst, LFC, briefed the committee on the preliminary *2005 LFC Post-Session Fiscal Review*. The purpose of the review is to look at the fiscal outcomes of the 2005 legislative session.

William Taylor, assistant director, LFC, reviewed major changes in recurring revenues:

- Recurring FY06 general fund revenues are \$342 million above what they were in FY05.
- About 40 percent of growth is from energy-related revenues.
- The FY07 outlook is for recurring general fund revenue growth less than 1 percent.
- Appropriations remain about 8.5 percent of personal income.

Mr. Taylor reviewed several graphs with the committee. The graph on energy-related revenues stimulated discussion regarding their instability from year to year.

Mr. Hadwiger reviewed a chart of FY06 recurring general fund appropriations. Public education and higher education accounts for 60 percent of the general fund budget. New general appropriations:

- \$138.7 million for public schools;
- \$108.5 million for health and human services, including \$84 million Medicaid.
- \$42.2 million for higher education.

Mr. Taylor reviewed the general fund financial summary, drawing attention to the transfer of \$13 million in recurring funds to the reserve due to HB410. The current projection on reserves is \$417 million, or 8.9 percent of the operating budget. If revenues this year continue at their current pace that 9 percent number could go to 11 percent or 12 percent.

Mr. Taylor reviewed the revenue and spending projections with the committee. Mr. Taylor said the baseline projection on expenditures the FY07 is for a 4.3 percent increase. Mr. Taylor also reviewed potential structural imbalance in out-years, tax policy legislation (HB410) and other major tax policy bills.

Mr. Hadwiger reviewed expenditures by policy area covering public education, Pre-K and post-secondary education.

Linda Kehoe, principal analyst, LFC, said there was a lot of money in general fund and severance tax bond for capital outlay this session. The Legislature agreed to allocate \$50 million off the top for statewide projects supported by the Legislature, including state facilities for housing the sick, elderly, juvenile and adult offenders, and to complete previously funded projects. The executive allocated \$50 million for the Invest New Mexico plan.

A final *2005 LFC Post-Session Fiscal Review* will be issued at a later date and posted on the LFC website.

ANALYST, AUDITOR AND OTHER INTERIM LFC STAFF WORK PLANS

David Abbey, director, LFC, said the work plans were staff proposals. The key things that should be considered are recommendations for interim committee hearings. A comparison was made of what the Legislature did this year to some of the issues laid out in the prior year. The staff brings up issues that may be discussed during the interim and leading into recommendations for 2006. It is suggested to have an LFC staff strategic plan, which is in the process of being updated. Mr. Abbey referred to an outline in the member's packets for of hearing ideas. Criteria used to develop suggestions for hearings include addressing obvious state priorities (such as increasing access to health care or reducing the number of schools in need of improvement), evaluating the cost benefits or effectiveness of new program initiatives, enhancing information on programs that were sharply debated during the last session, identifying ways to improve government services and reduce duplication, and promoting greater use of performance information in budget decisions. Mr. Abbey suggested LFC subcommittees and hearing topics with the committee.

Christine Chavez, deputy director, performance audit, LFC, reviewed the suggested audit work plan, including priority projects and secondary projects. There are 22 proposed projects in the priority area, totaling 13,000 hours and including four audit follow-ups.

Responding to Representative Varela with regard to the Department of Public Safety and the structural problems, Senator Griego said there are no policies and procedures in place for the officers with regard to disciplinary action. These should be in place and given to officers at the onset of their employment where clear concise procedures are defined. The state could be at risk should one of the officers on disciplinary administrative leave take a case to court. There are officers who do not know why they are being transferred to different divisions for disciplinary issues with no explanation from the department. Senator Griego said there is also fear of retaliation for participating in union activities.

Representative Varela said LFC could conduct a grievance process that could address the issues. The grievance process is not in place. There should be an external legal council to develop the internal policies and procedures and they need to be objective, fair and legal.

Arley Williams, principal analyst, LFC, briefed the committee on LFC staff objectives for the upcoming year with regard to internal processes of the LFC, including processes involving the production of the General Appropriation Act, fiscal impact reports, the budget recommendation document, the legislative financial information system, the staff policy and procedure manual, and performance-based budgeting.

REPORT OF SAVE SMART INITIATIVE TO LEVERAGE STATE'S PURCHASING POWER THROUGH THE \$8 MILLION APPROPRIATIONS

Jon Lee, performance auditor, LFC, briefed the committee on the Save Smart Initiative review.

EXECUTIVE SUMMARY

Objectives:

- Verify Save Smart savings, and
- Review Save Smart savings capture activities and projected savings for FY05 and FY06.

Key findings:

- Save Smart has provided savings and the opportunity for continued savings.
- The Save Smart contractor is being paid dollar for dollar on savings generated rather than fifty cents on the dollar.

- FY05 Save Smart savings are being used by agencies to fund other internal agency expenses rather than being captured for reversion to the general fund.
- A plan for capturing Save Smart savings for credit to the general fund has not been implemented.
- Continued state savings and return on the potential \$8.0 million state investment rely on successful implementation of knowledge obtained from the Save Smart contractor, and adequate staffing.
- Save Smart savings calculation and reporting procedures have weaknesses, some of which may be alleviated by the SHARE project.
- Agencies are expending administration time dealing with Save Smart vendor problems.

Background. The Save Smart initiative was announced by the governor in November 2003. The goal is to create savings for taxpayers by promoting collaboration among agencies to leverage the state's purchasing power while maintaining quality.

Funding for Save Smart came from Laws 2004, Chapter 126, Section 147, which appropriated \$8million to the General Services Department for payments pursuant to a contract to develop or modify state procurement practices. The appropriation was for expenditure in FY04 and FY05. The appropriation was extended to June 30, 2006, during the 2005 legislative session.

As a result of the request for proposal process, the General Services Department entered into a contract with Silver Oak Solutions, Inc., effective November 4, 2003, to provide the Save Smart contractor procurement services. The contract was signed contingent upon sufficient appropriations and authorization by the Legislature, which acted during the 2004 legislative session. The contract's termination date is October 31, 2007.

Save Smart Activities. Silver Oak Solutions, Inc. performed a thorough analysis of state spending and developed a broad list of spending categories to consider for savings. The contractor analyzed existing state contracts and pricing in the marketplace and recommended the specific categories to target for Save Smart. Through the request for proposal process, and by employing techniques such as multiple rounds of negotiation to enhance competition, contracts in 13 categories have been signed. Savings began accruing in April 2004 from the first contracts implemented. The most recent information available shows that through February 28, 2005, savings have occurred in nine categories across 77 agencies. Medical and food expenses for the Corrections Department have generated approximately one-half of the state's Save Smart savings.

Secretary Edward Lopez, Jr., General Services Department, (GSD), briefed the committee on how the Save Smart Initiative started in New Mexico by the governor's request. It was discovered the purchasing system in the state was uncoordinated, and state government did not know what it was spending on what. GSD contracted with Silver Oaks Solutions, which spent a quarter of a year pouring through financial data from FY02 manually piecing together a report. Silver Oaks concluded the state had an opportunity to save an estimated \$150 million over 10 years on everyday items. The target for savings was 10 percent per year. A problem identified was that the procurement system was broken. The whole intention of the program was to identify a statewide price agreement for everyday items so state agencies would no longer have to get three bids. At the governor's direction, all agencies would have to use the Save Smart contracts to realize the savings.

LFC SUBCOMMITTEES DISCUSSION

Mr. Abbey presented the proposed LFC subcommittees with the committee: Performance and Revenue and Audit, Information and Technology, and Capital Outlay. Representative Varela asked that Representative Saavedra chair the Audit, Information and Technology Subcommittee and that Senator Smith chair the

Performance and Revenue Subcommittee, with Senator Griego serving as vice-chair. Representative Varela asked the members to let him know what committee they would like to serve on.

INFORMATION TECHNOLOGY (IT) QUARTERLY REPORT

David Goodrich, performance auditor, LFC, referred the committee to the *Information Technology Quarterly Report* in their binders.

Roy Soto, chief information officer, Office of the Chief Information Officer (OCIO), said the amount of money spent on IT projects and the number of projects that have failed or partially failed have raised concerns. The executive and the Information Technology Commission (ITC) are concerned. This report represents an effort among ITC, OCIO and LFC to provide better oversight over these projects and to implement a system that will show early warning signs. The form is a work in progress. OCIO is refocusing the efforts of the OCIO to provide more oversight and the consultants will be performing site visits and follow-up with the agencies. OCIO will require independent verification and validations, an indicator of how the projects are progressing. OCIO is working closely with the Certification Committee of ITC and LFC, who will perform random audits of the projects.

Responding to Representative Varela, Mr. Soto said OCIO went back to the basics and looked at the legislation to investigate the responsibilities of the office and it is oversight and guidance, not operations and programs. OCIO is moving in that direction and staffing ITC. An individual has been hired to interface with the commission.

Responding to Representative Varela with regard to IT contracts, Mr. Soto said he had concern about the office's ability to adequately review IT contracts. With the approval of the governor, the deputy chief information officer position was converted to an attorney position, which has been filled with a candidate experience in IT projects and intellectual problems.. This candidate will also help OCIO with IT contract issues. With respect to the remaining IT business consultants and how they interact with the agencies, the first focus is to provide the oversight, the second to provide assistance where possible. Another resource is the information officers in the agencies, where there is much talent. Domain teams have been reorganized in areas of networking, platform, applications, and security. These teams will meet weekly to ensure that when standards and recommendations are made to the commission, we are all on the same page.

MISCELLANEOUS BUSINESS

Discuss LFC Meeting Locations. The committee discussed meeting locations for the months of May, June, July, and August 2005. The locations will be Roswell in May, Grants in June, Clayton in July and Farmington in August.

Review and Adopt LFC Interim Calendar. The committee approved the LFC 2005 calendar.

Approval of LFC Minutes - January 2005. Mr. Abbey presented the minutes to the committee. Representative Townsend moved to adopt the minutes; Senator Beffort seconded the motion, which passed with no objections.

Mr. Abbey referred the committee to the following information items in their binders for their review.

Bars

LFC FY06 Operating Budget

Cash Balance Report March 2005

LFC Budget Status

Status of Audit Work Plan

Representative Varela adjourned the meeting at 10:55 a.m.

Chairman

Date